



SECURIT

07001454

SION

OMB APPROVAL  
 OMB Number: 3235-0123  
 Expires: September 30, 1998  
 Estimated average burden  
 hours per response . . . 12.00

ML  
3/2

SEC FILE NUMBER  
 8- 35724

**ANNUAL AUDITED REPORT  
 FORM X-17A-5  
 PART III**

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
 Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2006 AND ENDING December 31, 2006  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Investment Architects, Inc.

OFFICIAL USE ONLY  
 FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

34 Petaluma Blvd. North

(No. and Street)

Petaluma

California

94952

(City)

(State)

(Zip Code)

**PROCESSED**

**MAR 08 2007**

**THOMSON  
FINANCIAL**

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

David Haddock

(707) 763-7861

(Area Code -- Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Breard & Associates, Inc. Certified Public Accountants

(Name -- if individual, state last, first, middle name)

9221 Corbin Avenue, Suite 170

Northridge

California

91324

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

SEC MAIL  
 RECEIVED  
 FEB 23 2007  
 WASHINGTON FIELD

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

BB  
3/8

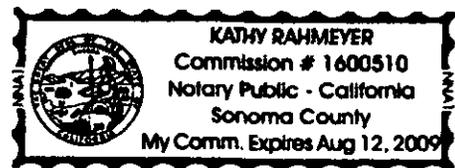
OATH OR AFFIRMATION

I, David Haddock, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Investment Architects, Inc., as of December 31, 2006, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

State of California  
County of SONOMA  
Subscribed and sworn (or affirmed) to before me this 6th day of Feb 2007  
Kathy Rahmeyer  
Notary Public

\_\_\_\_\_  
Signature  
PRESIDENT  
Title



This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in ~~Financial Condition~~ Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**BREARD & ASSOCIATES, INC.**  
Certified Public Accountants

Independent Auditor's Report

Board of Directors  
Investment Architects, Inc.:

We have audited the accompanying statement of financial condition of Investment Architects, Inc. (the Company), as of December 31, 2006, and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Investment Architects, Inc. as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 7, 2007

*We Focus & Care<sup>SM</sup>*

**Investment Architects, Inc.**  
**Statement of Financial Condition**  
**December 31, 2006**

**Assets**

Cash and cash equivalents	\$ 108,576
Deposits with clearing organization	26,230
Commissions receivable	95,720
Marketable securities, at market value	40,027
Property and equipment, net	6,938
Other assets	<u>600</u>
<b>Total assets</b>	<b><u>\$ 278,091</u></b>

**Liabilities and Stockholders' Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 8,000
Commissions payable	<u>85,859</u>
<b>Total liabilities</b>	<b>93,859</b>

**Stockholders' equity**

Common Stock, no par value, 1,000 shares authorized, 540 issued and outstanding	7,500
Retained earnings	<u>176,732</u>
<b>Total stockholders' equity</b>	<b><u>184,232</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 278,091</u></b>

*The accompanying notes are an integral part of these financial statements.*

**Investment Architects, Inc.**  
**Statement of Operations**  
**For the Year Ended December 31, 2006**

**Revenues**

Commissions income	\$ 2,748,087
Other income	4,423
Unrealized gain on investments	<u>47</u>
<b>Total revenues</b>	<b>2,752,557</b>

**Expenses**

Commissions expense	2,352,189
Employee compensation and benefits	217,426
Occupancy and equipment rental	15,607
Taxes, other than income taxes	18,186
Other operating expenses	<u>149,646</u>
<b>Total expenses</b>	<b><u>2,753,054</u></b>

**Income (loss) before income taxes** (497)

**Total income tax provision** 800

**Net income (loss)** \$ (1,297)

*The accompanying notes are an integral part of these financial statements.*

**Investment Architects, Inc.**  
**Statement of Changes in Stockholders' Equity**  
**For the Year Ended December 31, 2006**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance, December 31, 2005</b>	\$ 7,500	\$ 178,029	\$ 185,529
<b>Net income (loss)</b>	—	(1,297)	(1,297)
<b>Balance, December 31, 2006</b>	<u>\$ 7,500</u>	<u>\$ 176,732</u>	<u>\$ 184,232</u>

*The accompanying notes are an integral part of these financial statements.*

**Investment Architects, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2006**

**Cash flows from operating activities:**

Net income (loss)		\$ (1,297)
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation	\$ 2,450	
Valuation of marketable securities to market	(47)	
(Increase) decrease in:		
Commissions receivable	748	
Deposits with clearing organization	(1,079)	
(Decrease) increase in:		
Accounts payable and accrued expenses	1,395	
Commissions payable	<u>(4,929)</u>	
Total adjustments		<u>(1,462)</u>
Net cash and cash equivalents provided by (used in) operating activities		(2,759)

**Cash flows from investing activities**

Purchase of marketable securities	(4,800)	
Purchase of furniture, fixtures & equipment	<u>(7,004)</u>	
Net cash and cash equivalent from investing activities		(11,804)

**Cash flows from financing activities**

Net increase (decrease) in cash and cash equivalents		(14,563)
Cash and cash equivalents at beginning of year		<u>123,139</u>
Cash and cash equivalents at end of year		<u>\$ 108,576</u>

**Supplemental disclosure of cash flow information:**

Cash paid during the year for:		
Interest	\$	—
Income taxes	\$	800

*The accompanying notes are an integral part of these financial statements.*

**Investment Architects, Inc.**  
**Notes to Financial Statements**  
**December 31, 2006**

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Investment Architects, Inc. (the "Company"), was incorporated in the State of California on September 28, 1984. The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the National Association of Securities Dealers ("NASD"), and the Securities Investors Protection Corporation ("SIPC").

The Company conducts business on a fully disclosed basis whereby the execution and clearance of trades are handled by another broker/dealer. The Company assists clients in investing in mutual funds and variable annuities, and does not hold customer funds and/or securities.

*Summary of Significant Accounting Policies*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For purposes relating to the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also includes money market accounts as cash equivalents.

The Company records commission income and related commission expenses on a trade date basis, except for recurring trade date revenue (such as 12 b-1 revenue) which is recorded when received.

Accounts receivable are stated at face value with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

The Company's securities investments consist of corporate stocks, and are held principally for the purpose of selling in the near term and are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period reflected in earnings.

Certain prior year amounts have been reclassified to conform to the current year's presentation. These changes had no impact on previously reported results of operations or stockholder's equity.

**Investment Architects, Inc.**  
**Notes to Financial Statements**  
**December 31, 2006**

**Note 1: GENERAL & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Property and equipment are stated at cost. Repairs and maintenance to these assets are charged to expense as incurred; major improvements enhancing the function and/or useful life are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gains or losses arising from such transactions are recognized. Property and equipment are depreciated over their estimated useful lives ranging from five (5) to seven (7) years by the straight-line method.

The Company accounts for its income taxes using the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 109, "*Accounting for income taxes*", which requires the establishment of a deferred tax asset or liability for the recognition of the future deductible or taxable amounts and operating loss and tax credit carry forwards. Deferred tax expenses or benefits are recognized as a result of the changes in the assets and liabilities during the year.

**Note 2: MARKETABLE SECURITIES**

The Company maintains an investment in common stock of the NASDAQ stock Market, Inc. The market value of these investments at December 31, 2006 was \$40,027. The Company considers these marketable securities as trading as defined by FASB 115, *Accounting For Certain Investments in Debt and Equity Securities*. Unrealized gains (losses) on trading marketable securities consisted of gross unrealized holding gains of \$47.

**Note 3: DEPOSITS WITH CLEARING ORGANIZATION**

The Company has deposited \$25,000 with its clearing firm as security for its transactions with them. Interest is paid monthly on the deposit at the average overnight repurchase rate. The balance at December 31, 2006 includes interest earned for a deposit total of \$26,230.

**Note 4: INCOME TAXES**

The income tax provision consists of the California Franchise Tax Board minimum tax of \$800. The Company has available at December 31, 2006, unused Federal net operating losses, which may be applied against future taxable income or carried back to offset previous taxable income, resulting in a deferred tax asset of approximately \$2,831. The net operating loss begins to expire in the year 2026.

A 100% valuation allowance has been established against this benefit since management cannot determine if it is more likely than not that the asset will be realized.

**Investment Architects, Inc.**  
**Notes to Financial Statements**  
**December 31, 2006**

**Note 5: PROPERTY AND EQUIPMENT**

Property and equipment are recorded at cost and summarized by major classifications as follows:

		<u>Depreciable Life Years</u>
Furniture and fixtures	\$ 3,014	5
Computer and equipment	<u>29,541</u>	7
	32,555	
Less accumulated depreciation	<u>(25,617)</u>	
Net furniture and equipment	<u>\$ 6,938</u>	

Depreciation expense for the year ended December 31, 2006 was \$2,450.

**Note 6: CONCENTRATIONS OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is measurement of any tax position that meets the more-likely-than-not recognition threshold to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance on the de-recognition of uncertain positions, financial statement classification, accounting for interest and penalties, accounting for interim periods and new disclosure requirements. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that the adoption of FIN 48 will have on its financial position and results of operations. However, the impact is not expected to be material.

**Investment Architects, Inc.**  
**Notes to Financial Statements**  
**December 31, 2006**

**Note 7: RECENTLY ISSUED ACCOUNTING STANDARDS**  
**(Continued)**

In September 2006, the FASB issued Statement of Accounting Financial Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The company is currently evaluating the new standard. However, adoption of SFAS 157 is not expected to have a material effect on the Company’s financial statements.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements Nos. 87, 106, and 132(R)” (“SFAS 158”). SFAS 158 requires companies to recognize on a prospective basis the funded status of their defined benefit pension and postretirement plans as an asset or liability and to recognize changes in that funded status in the year in which the changes occur as a component of other comprehensive income, net of tax. The effective date of the pronouncement is a function of whether the Company’s equity securities are traded publicly. If the entity has publicly traded securities, the effective date is for fiscal years ending after December 15, 2006. Entities without publicly traded securities must adopt the standard for fiscal years ending after June 15, 2007. The company is currently evaluating the new standard. However, adoption of SFAS 158 is not expected to have a material effect on the Company’s financial statements.

**Note 8: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2006, the Company had net capital of \$168,225, which was \$143,225 in excess of its required net capital of \$25,000; and the Company’s ratio of aggregate indebtedness (\$93,859) to net capital was 0.56 to 1, which is less than the 15 to 1 maximum ratio allowed.

**Investment Architects, Inc.**  
**Notes to Financial Statements**  
**December 31, 2006**

**Note 9: RECONCILIATION OF AUDITED NET CAPITAL TO UNAUDITED FOCUS**

There is a \$2 difference between the computation of net capital under net capital Sec. Rule 15c3-1 and the corresponding unaudited focus part IIA.

Net capital per unaudited schedule		\$ 168,223
Adjustments:		
Retained earnings	\$ (2,448)	
Non-allowable assets	<u>2,450</u>	
Total adjustments		<u>2</u>
Net capital per audited statements		<u>\$ 168,225</u>

**Investment Architects, Inc.**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2006**

**Computation of net capital**

Stockholder's equity		
Common stock	\$ 7,500	
Retained earnings	<u>176,732</u>	
Total stockholder's equity		\$ 184,232
Less: Non-allowable assets		
Commission receivable	(2,465)	
Property and equipment, net	(6,938)	
Other assets	<u>(600)</u>	
Total non-allowable assets		<u>(10,003)</u>
<b>Net capital before haircuts</b>		174,229
Less: Adjustments to net capital		
Haircuts on securities	<u>(6,004)</u>	
Total adjustments to net capital		<u>(6,004)</u>
<b>Net Capital</b>		168,225

**Computation of net capital requirements**

Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 6,257	
Minimum dollar net capital required	<u>25,000</u>	
Net capital required (greater of above)		<u>(25,000)</u>
<b>Excess net capital</b>		<u>\$ 143,225</u>

Ratio of aggregate indebtedness to net capital 0.56: 1

There was a difference of \$2 between net capital computation shown here and the net capital computation shown on the Company's unaudited Form X-17A-5 report dated December 31, 2006. See Note 9.

*See independent auditor's report.*

**Investment Architects, Inc.**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2006**

A computation of reserve requirements is not applicable to Investment Architects, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Investment Architects, Inc.**  
**Schedule III - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of December 31, 2006**

Information relating to possession or control requirements is not applicable to Investment Architects, Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Investment Architects, Inc.**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2006**

**BREARD & ASSOCIATES, INC.**  
Certified Public Accountants

Board of Directors  
Investment Architects, Inc.:

In planning and performing our audit of the financial statements of Investment Architects, Inc. (the Company), as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, National Association of Securities Dealers, Inc., and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
February 7, 2007

END